

INTRODUCTORY STATEMENT
SENATOR OLYMPIA J. SNOWE
SMALL BUSINESS INVESTMENT COMPANY CAPITAL ACCESS ACT OF 2003
APRIL 10, 2003

Mr. President, I rise today to introduce the "Small Business Investment Company Capital Access Act of 2003," whose purpose is to increase the amount of venture capital available to small businesses. As the Chair of the Committee on Small Business and Entrepreneurship, I am pleased that my good friend and former Chairman of the Committee, Senator Bond, and the Chairman of the Senator Finance Committee, Senator Grassley, have agreed to be the principal cosponsors of this important bill.

During the past two years, there has been a significant contraction of the private-equity market. During this same period, the Small Business Administration's Small Business Investment Company (SBIC) program has taken on a significant role in providing venture capital to small businesses seeking investments in the range of \$500,000 to \$3 million.

Small Business Investment Companies are government-licensed, government-regulated, privately managed venture capital firms created to invest only in original issue debt or equity securities of U.S. small businesses that meet size standards set by law. In the current economic environment, the SBIC program represents an increasingly important source of capital for small enterprises.

While Debenture SBICs qualify for SBA-guaranteed borrowed capital, the government guarantee forces a number of potential investors, namely pension funds and university endowment funds, to avoid investing in SBICs because they would be subject to tax liability for unrelated business taxable income (UBTI). More often than not, tax-exempt investors opt to invest in venture capital funds that do not create UBTI. As a result, an estimated 60% of the private-capital potentially available to these SBICs is effectively "off limits."

The "Small Business Investment Company Capital Access Act of 2003" would correct this problem by excluding government-guaranteed capital of Debenture SBICs from debt for purposes of the UBTI rules. This change would permit tax-exempt organizations to invest in SBICs without the burdens of UBTI record keeping or tax liability.

In 1958, Congress created the SBIC program to assist small business owners in obtaining investment capital. More than forty years later, small businesses continue to experience difficulty in obtaining investment capital from banks and traditional investment sources. Although investment capital is readily available to large businesses from traditional Wall Street investment firms, small businesses seeking investments in the range of \$500,000 to \$3 million have to look elsewhere. SBICs are frequently the only sources of investment capital for growing small businesses.

Often we are reminded that the SBIC program has helped some of our Nation's best known companies. It has provided a financial boost at critical points in the early growth period for many companies that are familiar to all of us. For example, when Federal Express needed help from reluctant credit markets, it received a needed infusion of capital from two SBA-

licensed SBICs at a critical juncture in its development stage. The SBIC program also helped other well-known companies, when they were not so well-known, such as Intel, Outback Steakhouse, America Online, and Callaway Golf.

What is not well known is the extraordinary help the SBIC program provides to Main Street America small businesses. These are companies we know from home towns all over the United States. Main Street companies provide both stability and growth in our local business communities.

In 1991, the SBIC program was experiencing major losses, and the future of the program was in doubt. Consequently, in 1992 and 1996, the Committee on Small Business worked closely with the Small Business Administration to correct deficiencies in the law in order to ensure the future of the program.

Today, the SBIC Program is expanding rapidly in an effort to meet the growing demands of small business owners for debt and equity investment capital. And it is important to focus on the significant role that is played by the SBIC program in support of growing small businesses. When Fortune Small Business compiled its list of 100 fastest growing small companies in 2000, 6 of the top 12 businesses on the list received SBIC financing during their critical growth year.

The "Small Business Investment Company Capital Access Act of 2003" is important for one simple reason: once enacted it paves the way for more investment capital to be available for more small businesses that are seeking to grow and hire new employees. According to the National Association of Small Business Investment Companies (NASBIC), a conservative estimate of the effect of this bill would be to increase investments in Debenture SBICs by \$200 million per year from tax-exempt investors. Together with SBA-guaranteed leverage, that will mean as much as \$500 million per year in new capital assets for Debenture SBICs to invest in U.S. small businesses.

According to the SBA, one job is created for every \$36,000 invested in a small company. At that rate, this bill could be responsible for the creation or support of as many as 16,600 jobs – within companies receiving investments directly as well as within those firms benefitting indirectly through increased sales of goods and services to the former companies. In short, this bill is a jobs creator!

And the cost? The Joint Committee on Taxation estimated in the last Congress that this bill would result in tax revenue loss of only \$1 million per year for the next ten years.

Mr. President, the cost is low and the potential for economic gain is great. Passage of the bill will make the government's existing SBIC program more effective in providing growth capital for America's small business entrepreneurs.

And most importantly, it will provide sorely needed capital for the sector of our economy that provides a majority of the net new jobs in this country – small businesses. That is a real stimulus that would cause new investments to be made and the creation of critically needed new

jobs. Our economy is primed for this kind of support, and I urge my colleagues to support this important bill.

Mr. President, I ask unanimous consent that the text of the bill and a summary of its provisions be printed following my remarks.